



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2014

ECONOMICS

Time: 3 hours

300 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 16 pages. Please check that your question paper is complete.
 2. Read the questions carefully.
 3. All questions are **COMPULSORY**. Answer SIX questions as follows:

ONE compulsory question from SECTION A;
FOUR compulsory questions from SECTION B; and
ONE compulsory question from SECTION C.
 4. Answer SECTION A on the inside cover of the Answer Book provided and SECTION B and C in the Answer Book.
 5. Answer questions, where possible, point by point but in full sentences. A systematic presentation of facts is required.
 6. Number the answers exactly as the questions are numbered.
 7. Please leave single line spaces open between answers. Start each question on a new page.
 8. It is in your best interest to write legibly and to present your work neatly.
 9. Non-programmable calculators may be used.
 10. Answer all questions in blue or black ink. Only sketches or diagrams may be done in pencil.
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SECTION A MULTIPLE CHOICE**QUESTION 1**

1. Choose the most correct answer.

1.1 When $S + T + M < I + G + X$ then national income will ...

- A remain unchanged.
- B equal all spending in the economy.
- C fall.
- D rise.

1.2 Table 1: Inflation figures for Country Z

Month	CPI 2011	CPI 2012
July	101.4	108.2
August	102.0	108.5
September	102.6	108.9

The year on year inflation rate for Country Z in September 2012 is ...

- A 6.1%
- B 6.7%
- C 6.4%
- D 3.7%

1.3 If the gross value added at basic prices is R2 111 billion, subsidies on products is R5 billion and taxes on products is R180 billion, then the gross domestic product at market prices is ...

- A R2 286 billion
- B R2 296 billion
- C R1 936 billion
- D R1 926 billion

1.4 A government decides to reduce the quota on imported computers from one million to 700 000 per year. What is the likely effect?

- A The price of computers will decrease.
- B The government's income will decrease.
- C The trade balance may improve.
- D The demand for computers will increase.

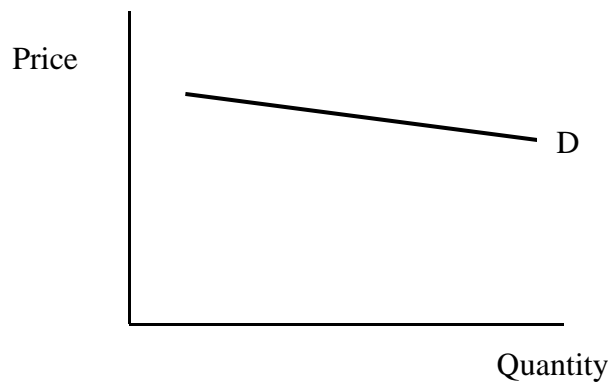
1.5 If you went shopping in Russia, which currency would you need?

- A Rupee
- B Ruble
- C Renminbi
- D Dollar

- 1.6 Why does the production of public goods have to be financed by the government?
- A One person's consumption of a public good means it is not available for anyone else.
 - B People are able to consume public goods without paying for them.
 - C Private Sector firms will provide public goods of inferior quality.
 - D The cost of producing public goods is higher in the private sector.
- 1.7 Which country's stock exchange is called the CAC 40?
- A Vietnam
 - B Germany
 - C France
 - D Japan
- 1.8 If an American buys shares in Old Mutual in South Africa on the JSE, this transaction will be recorded in the ... account of the Balance of Payments.
- A Direct investment
 - B Income receipts
 - C Portfolio investment
 - D Current transfers
- 1.9 The term used to describe the situation when government spending exceeds government revenue.
- A Budget deficit
 - B Public debt
 - C Balance of payments deficit
 - D Expansionary fiscal policy
- 1.10 The following statements might influence the demand for a product. Which would **NOT** cause a shift in the demand curve for a product?
- A A change in the price of the product itself.
 - B A change in consumers' incomes.
 - C A change in the price of a substitute.
 - D A change in the price of a complement.
- 1.11 Which statement about market supply is correct?
- A Market supply of a product increases as price decreases.
 - B Market supply of a product falls as price increases.
 - C Market supply can only increase when all individual businesses increase their output.
 - D Market supply is the result of adding together the supply of all individual businesses.

- 1.12 A product has a unitary price elasticity of demand and at a price of R20 a business sells 40 000 units. How many units will the business sell if it charges a price of R5?
- A 200 000
 - B 10 000
 - C 160 000
 - D 100 000
- 1.13 The Law of diminishing marginal utility states that ...
- A marginal utility increases at a decreasing rate.
 - B the extra satisfaction gained from consuming one more product decreases as the number of goods consumed increases.
 - C as the price of a product goes up the demand decreases and vice versa.
 - D total utility decreases as more products are consumed.
- 1.14 Which one of the following statements about a managed floating exchange rate system is TRUE?
- A The exchange rate is determined only by the market forces of demand and supply.
 - B The currency is pegged against another currency, normally the US dollar.
 - C Exchange rates are extremely volatile.
 - D A central bank can only intervene to stabilise a depreciating currency if it has sufficient foreign exchange reserves to do so.
- 1.15 Labour strikes in the agricultural sector will cause ...
- A the supply curve for agricultural products to shift to the right.
 - B aggregate demand to decrease.
 - C prices of agricultural products to go up.
 - D exports to increase.

1.16 Graph 1



The graph above represents a product that has a ...

- A perfectly price elastic demand
- B price elastic demand
- C perfectly price inelastic demand
- D price inelastic demand

1.17 The Laffer curve represents the following view(s):

- A A government can increase its tax revenue by cutting taxes.
- B There is an optimal tax rate that maximises the tax revenue of a country.
- C Tax rates that are too high discourage work and government revenue decreases.
- D All of the above.

51 marks

Maximum: 50

SECTION B**QUESTION 2 MACRO ECONOMICS**

2.1 Read the following information and answer the questions that follow.

An initial change in aggregate demand can have a much greater final impact on equilibrium national income. It comes about because injections of new demand for goods and services into the circular flow of income can stimulate further rounds of spending – in other words 'one person's spending is another's income'. Put another way, spending becomes someone else's income. This can lead to a bigger eventual effect on output and employment.

Consider a R400 million increase in capital investment – for example created when an overseas company decides to build a new production plant in South Africa. This may set off a chain reaction of increases in expenditures. Firms who produce the capital goods and construction businesses who win contracts to build the new factory will see an increase in their incomes and profits.

[Adapted from: <<http://tutor2u.net/economics/revision-notes/as-macro-multiplier-accelerator.html>>]

2.1.1 Explain what the macro-economic multiplier is in your own words. (2)

2.1.2 Calculate the multiplier if the marginal propensity to save is 0.3. Show all calculations. (4)

2.1.3 Using your answer from Question 2.1.2, calculate the increase in GDP if there is a R400 million increase in spending in the economy. (3)

2.2 Table 2: GDP figures for Country Y

Year	Nominal GDP	Real GDP	CPI
2010	A	1 777 444	100
2011	2 911 356	B	104
2012	3 247 684	3 000 892	108

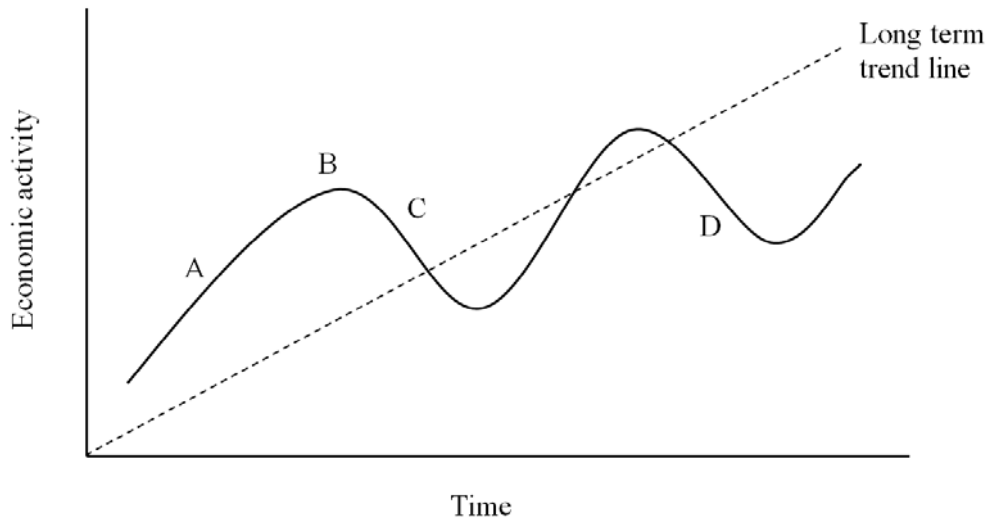
2.2.1 Calculate the value of A in the table. (2)

2.2.2 Calculate the value of B in the table. Show all calculations. (3)

2.2.3 Calculate the economic growth rate for 2012. Show all calculations. (4)

2.3 Study the following graph and answer the question that follows.

Graph 2: Business Cycle



Identify which of the following list of indicators occurs at each of the above points (A to D) on the business cycle. There could be two or more that occur at each point. Only write the number that corresponds with the correct letter, e.g. 2.3.1 D.

		A, B, C or D
2.3.1	Current account deficit may occur	
2.3.2	Pessimism about the future of the economy	
2.3.3	Investment in capital goods rises	
2.3.4	Consumer spending especially on durable goods falls	
2.3.5	Unemployment rises dramatically	
2.3.6	Boom/peak	
2.3.7	Unemployment falls	
2.3.8	Upswing/recovery	
2.3.9	High interest rates	
2.3.10	Downswing/recession	
2.3.11	Inflation is high	
2.3.12	Depression	

(12)

2.4 Discuss how the South African government can use monetary and fiscal policy to improve economic growth in South Africa. Also **evaluate** how successful the government has been recently in achieving its goals of economic growth.

(20)

[50]

QUESTION 3 MICRO ECONOMICS

3.1 Table 3: Cost and Revenue data for a monopoly firm

Quantity	Price	Total Revenue	Average Revenue	Total Cost	Marginal Cost	Average Cost	Profit
0	16	0	16	10	-	-	-10
1	14	14	14	12	2	12	2
2	A	24	12	13	1	6.5	11
3	10	30	10	17	4	5.66	13
4	8	B	8	22	5	5.5	10
5	6	30	6	30	8	6	0
6	4	24	4	39	9	D	E
7	2	14	2	49	10	7	-35
8	0	0	0	64	C	8	-64

3.1.1 At what level of output is revenue being maximised? (1)

3.1.2 At what level of output is this firm making a normal profit? (2)

3.1.3 Find the values of A – E. (5)

3.2 You are a second year Economics student from the University of Pretoria. Your brother, who has just started Grade 10 Economics has asked you for some guidance with one of his Economics assignments. Email him the memorandum for this question:

The government believes that the price of brown bread in South Africa is too high and therefore decides to implement a **maximum price** for brown bread. Use a graph **and** a short discussion to **assess** what effect this will have on the market for brown bread. (9)

3.3 The use of illegal drugs is a major problem in modern society. Addicts often resort to crime to obtain the money they need to buy drugs.

3.3.1 Draw a graph to show how a government's policy of restricting the flow of drugs into the country can affect the price of drugs. (4)

3.3.2 Using your knowledge of price elasticity of demand **assess** the effect the change in price depicted in the graph you drew in Question 3.3.1 will have on the revenue earned in the drug industry and why it would have this effect. (6)

- 3.4 The price of golf clubs increases from R3 000 to R3 300. The number of golf balls demanded decreases from 100 000 to 80 000 units. The demand curve for golf balls shifts to the left.
- 3.4.1 Calculate the cross price elasticity of demand for golf balls and golf clubs. Show all calculations. (3)
- 3.4.2 What does your answer indicate about the relationship between the two products? (2)
- 3.5 An allocation of resources is efficient when it is impossible to reallocate the resources to make at least one person better off without making someone else worse off. **Market failure** occurs when the market system is unable to achieve an efficient allocation of resources.
- Describe **THREE** causes of market failure and **assess** what the government can do about them. (18)
- [50]

QUESTION 4 ECONOMIC PURSUITS AND MIXED QUESTIONS

- 4.1 Define the term economic indicators. (2)
- 4.2 Examine the economic indicators and data in the **table below**, and answer the questions that follow:

Table 4: Economic indicators for South Africa

GDP		South Africa
GDP annual growth rate (%)	March 2013	1.9
GDP (\$ billions)	2012	408.24
GDP per capita (\$)	2012	3 825.09
GDP per capita PPP (\$)	2012	10 959.74
Labour		
Unemployment rate (%)	March 2013	25.2
Unemployed persons (000's)	February 2013	4 526
Population (000's)	2012	50.59
Prices		
Inflation rate (%)	April 2013	5.9
Consumer price index (CPI)	March 2013	102.50

- 4.2.1 Define the term 'economic growth'. (2)
- 4.2.2 How is economic growth measured? (2)
- 4.2.3 To the best of your knowledge how does South Africa's unemployment rate compare to developed countries such as the United Kingdom and the United States of America? (2)
- 4.2.4 Explain how inflation targeting is implemented in South Africa. (4)
- 4.2.5 Recently, Gill Marcus has indicated that she feels that the South African economy is a 'stagflation risk'. Explain stagflation and use your knowledge of the South African economy and the information at your disposal to determine if this is an accurate assessment and a valid concern? (10)

4.3 Explain what the following indicators tell us about the South African economy.

4.3.1 South Africa's Human Development Index is 0.629. (4)

4.3.2 South Africa's Gini co-efficient is 0.62. (4)



[Source: Google Images]

4.4 Discuss whether **restrictions** on international trade can ever be **justified**. In your answer you should refer to different types of restrictions and **analyse** the advantages and disadvantages of these trade restrictions. (20)

[50]

QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

5.1 5.1.1 What does the acronym PPI stand for? (2)

5.1.2 Differentiate between PPI and CPI. (4)

5.2



[Source: Google images]

'The undermining effect of **food price inflation** on incomes is particularly severe for the poorest households where the proportion of income spent on food is the largest.'

Discuss this statement in the context of inflation in South Africa. (10)

5.3 'Consumers who are battered by continuous price increases often long for the day when prices will start falling. But are **continuously decreasing prices** a good thing? When faced with a choice between **inflation** or continuous price decreases, inflation is usually still chosen as the lesser of the two evils, unless it deteriorates into **hyperinflation**'.

[Source: Economics for South African Students]

5.3.1 Define the term 'hyperinflation'. (2)

5.3.2 What is the economic term used for 'continuously decreasing prices'? (2)

5.3.3 Analyse whether 'continuously decreasing prices' would be good for the South African economy. (10)

5.4 Use **FOUR** criteria to compare the market structures of a monopoly and monopolistic competition. You can use a table to answer the question. (8)

- 5.5 In South Africa, if one cellphone company such as Vodacom launches a sales campaign and offers a special discount or extremely favourable terms, its main rivals tend to immediately introduce virtually the same offer.
- 5.5.1 Which market structure is being referred to in the above example? (2)
- 5.5.2 Discuss how **non-price** competition influences the behaviour of Vodacom and its competitors. (8)
- 5.6 List **TWO** basic aims of competition policy in South Africa. (2)
- [50]

200 marks

SECTION C**QUESTION 6 DATA RESPONSE**

6.1 Study the table below and answer the questions that follow:

Table 5: South African Rand

Currency	R1 =	In Rands
American Dollar	0.0908	11.01
Euro	0.0663	15.08
Brazilian Real	0.218	4.594
Indian Rupee	5.66	0.1768
Chinese Yuan Renminbi	0.551	1.816

[Source: [http://fx-rate.net/ZAR/\(14/2/14\)](http://fx-rate.net/ZAR/(14/2/14))]

6.1.1 Define the term 'exchange rate'. (2)

6.1.2 How many Brazilian Real could you buy for R1 000? (2)

6.1.3 If you were planning an overseas holiday, which country would you choose to visit? Motivate your answer using the information in Table 5. (4)

6.2 Study the information below and answer the questions that follow:

South African Rand (ZAR) Exchange Rate – Rand falls further against US Dollar (ZAR/USD) over labour strike concerns – by Matthew Olney

The South African Rand remains under pressure against the US Dollar after the currency fell sharply overnight as investors continued to be concerned that a two-day long strike at platinum firm Lonmin could lead to further worker unrest over the next few months.

Moody's analysts said on Wednesday that renewed labour unrest in the mining industry after violent protests last year hit output and left more than 50 people dead could hit export competitiveness and threaten South Africa's credit rating.

The Rand is also being weighed down by investor concerns that the global economy is slowing down. Disappointing data out of the USA and Europe has weighed down upon commodity prices adding to the weakening of the Rand.

[Source: <<http://www.futurecurrencyforecast.com>>, 16 May 2013]

Cosatu offer solutions to crippling strikes

"The long-term solution to strikes and protests lies not just in regulations and police action but through the transformation of our economy," said Cosatu spokesperson **Patrick Craven**, "and the creation of thousands of decent, sustainable jobs, decent wages and a far more equitable distribution of the country's wealth."

"Ownership of the country's wealth and resources is still concentrated in the hands of a small, mainly white, male elite, who run big monopoly companies, many foreign-owned," he said. "Inequality between the elite and the workers whose toil creates the wealth they enjoy is getting wider and wider." He said poverty and inequality were at the heart of all the strikes and community protests which were taking place countrywide.

"Cosatu fully backs the president's plea for protests and strikes to be conducted lawfully and peacefully."

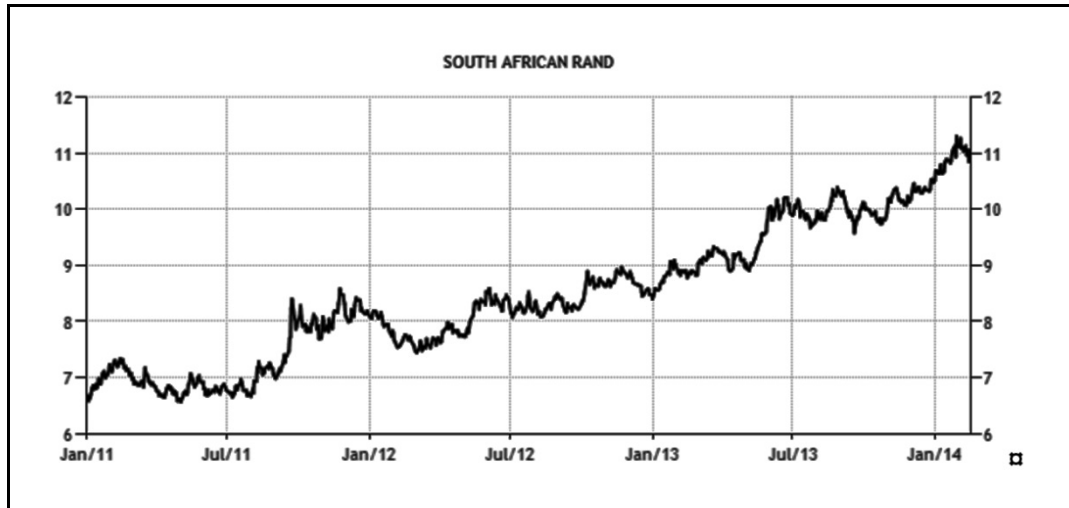
[Source: <<http://www.fin24.com>>, 14 February 2014]

News24 Hot Topics**China trade surplus boosts JSE (12/2/14)**

Emerging market panic seems to have abated and share prices on the JSE as well as the Rand firmed on good economic data from China.

Weak Rand boosts South African tourism (31/1/14)

SA policy makers have watched the Rand plunge against the US dollar over the last year, but the tourism industry is happily raking in the extra dollars.



[Source: Tradingeconomics.com]

Using the above information, evaluate what has caused the Rand to weaken against the US Dollar.

(12)

- 6.3 According to the article, 'Cosatu offers solutions to crippling strikes', a **COSATU** spokesperson said that 'poverty and inequality were at the heart of all the strikes' happening in South Africa.

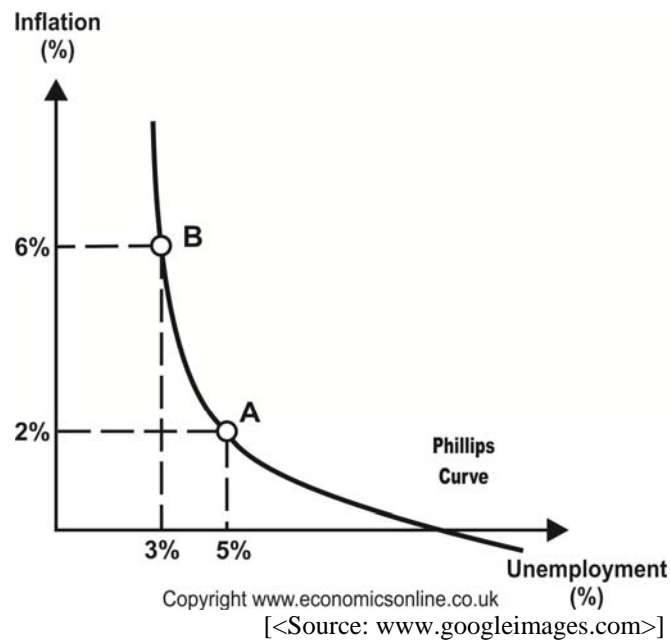
6.3.1 What does the acronym **COSATU** stand for?

(2)

6.3.2 Do you agree with this statement? Explain why you agree or disagree.

(6)

6.4 Graph 3: The Phillips Curve

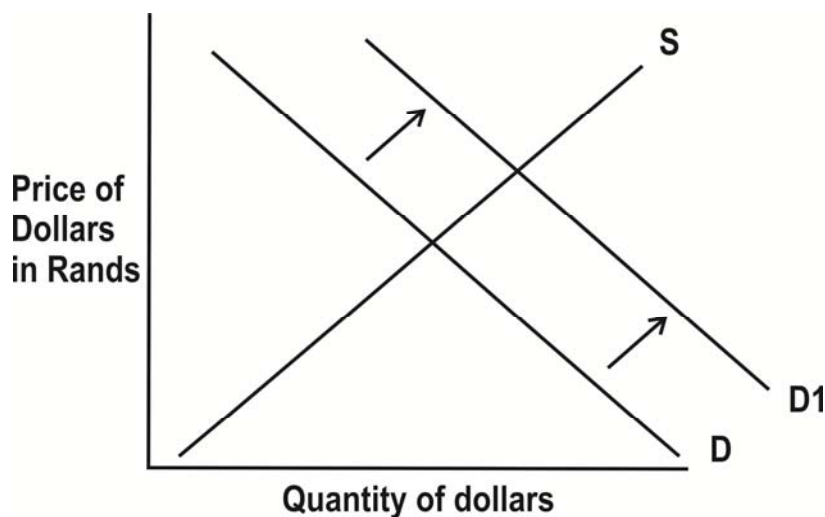


6.4.1 What is the relationship between the two key variables on the Phillips curve? (2)

6.4.2 Explain why an increase in aggregate demand will lead to a trade-off between unemployment and inflation. (8)

6.5 Study the following graph and answer the questions that follow:

Graph 4: Rand/Dollar exchange rate



6.5.1 Would the Rand appreciate or depreciate when the demand curve shifts from D to D1? (2)

6.5.2 Give **TWO** reasons why the demand curve would move to the right. (4)

6.6 Study the table below and answer the questions that follow.

Table 6: Figures from South Africa's balance of payments account 2012

Accounts	R Millions
Net portfolio investments	54 653
Service receipts	124 332
Net gold exports	71 050
Current transfers	-31 369
Net other investments	106 104
Merchandise imports	842 775
Net direct investments	1 673
Income receipts	48 501
Payment for services	145 006
Merchandise exports	696 180
Income payments	118 508

[Source: SARB Quarterly Bulletin March 2013]

6.6.1 Calculate the balance on the current account. Show all calculations. (4)

6.6.2 Comment on the figure calculated in Question 6.6.1 above. (2)

50 marks

Total: 300 marks